

# Frequently Asked Questions About Fiscal Capacity

---

**1. What is fiscal capacity?**

Fiscal capacity is the potential ability of local governments to fund education from their own taxable sources, relative to the cost of their service responsibility.

**2. What factors determine fiscal capacity?**

Essentially, fiscal capacity is determined by the following factors for each of the 95 counties: fiscal effort, tax capacity based on property and sales, ability to pay based on per capita income, tax burden, and service responsibility based on school population as a percent of total population.

**3. What is the actual output of TACIR's fiscal capacity formula?**

The TACIR formula measures the per pupil dollar amount that each county—based on the characteristics explained in item 2 above—can afford to pay to fund education.

**4. What is the method for determining fiscal capacity?**

Essentially, the fiscal capacity model is based on a set of averages. The method, which is called multiple regression analysis, takes one factor (variable) at a time and compares it for all counties. From this process, an average weight (called a coefficient) is calculated for each factor. For the property and sales bases, this coefficient is equivalent to an average tax rate.

**5. What is multiple regression analysis?**

This is a very common and eminently useful statistical method for addressing a wide range of issues. This procedure is used to predict the value of fiscal capacity based on a number of factors that determine fiscal capacity.

**6. How is the per pupil fiscal capacity actually calculated?**

As indicated above, the statistical method produces an average weight (called a coefficient) for each of the factors in the model. These averages are multiplied by the value of each factor for each county and summed. This produces a per pupil fiscal capacity amount. These per pupil amounts will vary county-by-county because the factor values are different for each county.

**7. What are the timing implications of fiscal capacity?**

Because of a time lag in the collection and publication of official statistics, the data is frequently 18 to 24 months old. Moreover, the formula is based on a 3-year “moving” average of the data used. That means that each year the formula is calculated, the most

current year is added and the oldest year is dropped. Consequently, a current change in the tax base of any county will not be reflected in the most current fiscal capacity index.

**8. Will the fiscal capacity of each county change each year?**

It is likely that there will be some change each year. However, experience shows that for most counties the changes are insignificant. The influence of a change in the tax base in a specific county will be related to similar tax changes in other counties. A change in any specific fiscal capacity factor will not necessarily mean a change in fiscal capacity.

**9. What is the fiscal capacity index (FCI)?**

The State Board and Department of Education use a percent of total measure of fiscal capacity rather than a per pupil measure. Once TACIR determines per pupil capacity for each county, this value is multiplied by average daily membership. This produces a countywide measure of total fiscal capacity. The values of the 95 counties are summed, and each county is expressed as a proportion of the total. The fiscal capacity index for each county is this proportion.

**10. Is the FCI the same thing as my local BEP match rate?**

No. Your local match rate is the result of multiplying your fiscal capacity index by the total (statewide) local share of the Basic Education Program (a dollar amount) and then dividing the result (the amount of the BEP your county area must fund) by the total dollar amount generated for your county by the BEP formula. The total (statewide) local share of the BEP is a dollar amount that results from multiplying the statutory match rate (e.g., 50% of the non-classroom components) by the total dollar amount generated for all school systems by the BEP formula.

**11. Can per pupil fiscal capacity change without affecting the index?**

Yes. The per pupil capacity of a specific county can move up or down without necessarily causing a major change in the index. However, this depends on what changes occur in all 95 counties.

**12. How does the Fiscal Capacity Index influence the local share of each county for funding the Basic Education Program?**

The index is the portion of total fiscal capacity for which each county has responsibility. If county A has an index of 3.45% in FY 2004, then county A is responsible for 3.45% of the total local share (in dollars) of the BEP. The total local share depends on the total cost of the BEP and the local match rate set in statute. If a county's index goes up, or down, that county's share of responsibility changes. Changes in the fiscal capacity index have much less effect on funding than do changes in the local match rate set in statute or changes in the total cost of the BEP.